

**STATEMENT BY THE PRINCIPAL FINANCIAL GROUP  
BEFORE THE  
SPECIAL COMMITTEE ON AGING  
U.S. SENATE  
ON  
LEARNING TO SAVE: INNOVATIONS IN THE PURSUIT OF INCOME SECURITY  
JUNE 17, 1999**

Mr. Chairman and Members of the Committee:

Good afternoon. I am Dan Houston, vice president--pension, at Principal Life Insurance Company, a member of the Principal Financial Group. Principal provides retirement plan investment and administrative services to more than 43,000 employers, representing over three million plan members, the majority of whom employ under 100 employees. Principal has long supported efforts to increase plan sponsorship among small and medium sized employers and to encourage participation among employees who have access to employer sponsored plans. We are optimistic that through initiatives such as the 1998 Summit on Retirement Savings, Congress can determine how best to help individuals become aware of the role employer sponsored retirement plans and individual savings play in ensuring a secure retirement. We strongly support the pension reform provisions in The Pension Coverage and Portability Act (S.741), sponsored by you, Mr. Chairman and Senator Graham. We include specific comments on this legislation later in our statement.

Principal was pleased to participate in last year's Summit on Retirement Savings. I appreciate the opportunity to appear before you today and commend you for holding this hearing. Today, I will discuss three primary issues:

The need to enroll employees into employer-sponsored savings plans as soon as they become eligible for the plan.

How Principal helps our 24,000+ 401(k) plan sponsors educate their employees in order to encourage more of them to participate in 401(k) plans.

An example of how several of our typical customers increased employee participation in its 401(k) plan.

### **Encouraging Early Participation**

Employees who have access to an employer sponsored pension plan should be encouraged to contribute as soon as they are eligible for the plan. The best way to increase plan participation is by educating potential plan participants (and their employers) about the need for saving for retirement and the benefits of an employer sponsored retirement plan. Many employees do not understand how much money they will actually need in retirement. Most have never tried to calculate how much income they need to save before they retire. As a result, many mistakenly believe that their Social Security retirement benefits alone will provide an adequate standard of living in retirement.

Nonetheless, Americans are worried about having enough money in retirement. According to the 1998 Retirement Confidence Survey of the Employee Benefit Research Institute (EBRI), only 25 percent of survey respondents felt they would have an adequate amount of income upon their retirement. Yet, to add to their dilemma, approximately one-third of workers eligible to participate in employer sponsored

401(k) plans choose not to participate. So, what can be done to motivate employees to take advantage of the savings opportunities a 401(k) plan provides them?

First, employees need reliable and understandable educational materials discussing the amount of income needed to maintain an adequate standard of living in retirement. The material must discuss how much of this income will be provided by Social Security and how much must be made up through other sources. Because these concepts can be confusing for many employees, information about planning goals and concepts must be put into language understandable by the average employee. It must be targeted to specific audiences, such as savers, non-savers, specific ethnic groups, union members, white collar, and blue collar employees. Successful communication methods may vary for blue collar workers than for white collar workers.

Successful retirement education programs should do the following:

Help employees decide how much they should contribute to the plan.

Help employees decide how to allocate those funds among the different investment options.

Explain the principles of compounded earnings to illustrate the importance of saving early and saving often.

Explain basic investment principles, such as asset allocation, risk tolerance, and dollar cost averaging.

Explain that saving for retirement is a long-term process and that short-term market volatility shouldn't necessarily affect an employee's investment mix.

Illustrate the adverse impact of pre-retirement withdrawals.

Surveys show that personal meetings are the best way to educate plan participants. Unfortunately, this is also the most costly method. The next best method is on-site enrollment meetings with staff from the plan's service provider or investment manager. Custom videos and audiotapes targeted specifically for the employers' workforce are also good choices, as are newsletters, posters and payroll stuffers.

Once employees are enrolled in the plan, an employer, or the firm providing administrative and investment services for the plan, must continue to generate interest in the plan via a consistent and regular communication strategy. Employers can keep employees involved in their plans by providing them with the following tools:

*Convenient access.* Provide a voice response telephone system and/or Internet website to allow employees to access information about their retirement savings when they want it.

*Periodic reports.* Give employees detailed, informative reports that summarize account activity and demonstrate savings growth.

*Projections and illustrations.* Provide employees with savings projections and retirement illustrations to help them plan for the future and see the value of their retirement plan.

### **Educational Materials We Provide to Plan Sponsors**

Principal offers a wide range of services to help plan sponsors educate employees on the need for

retirement saving.

*Enrollment services.* We provide local and/or home office representatives to communicate and encourage employee participation. We also provide enrollment training for the employer's benefit administrator(s) to help explain the retirement plan and the benefits of plan participation.

*Enrollment material and videos.* We have a wide range of enrollment materials and videos available in English and Spanish. We can also provide materials in other languages or design pieces that specifically fit an employer's workforce. Our enrollment and investment materials are written at an eighth grade level to help employees at all levels understand the available options. To ensure the information actually is understandable, we have eighth graders in local Des Moines schools read the materials and give us feedback.

*Member communication materials.* We provide materials to help employees better understand the benefits of the employer's retirement plan and why they should save for retirement. Materials include enrollment kits, brochures, posters, videos, computer software, and much more.

*Internet home page.* Participants can find general retirement planning information on our Internet site at [www.principal.com](http://www.principal.com). Our Retirement Service Center has interactive tools that help employees determine how much to save, the most appropriate investment strategy, and how their employer's plan can help them reach their goals. Plan participants can also access current account information and receive information about the various investments offered under their plans.

*Personalized benefits counseling service.* We can provide onsite counselors who discuss payout options, plan projections and retirement plan basics with employees.

*Member Service Center.* We have a toll-free number employees may use to obtain information on all plan and investment related questions.

*Retirement planning seminars.* We offer retirement planning seminars to help employees determine their retirement needs and develop a plan to reach their goals.

*Investment newsletters.* We send investment newsletters to plan participants briefly describing each investment offered in their plan. The newsletter includes a summary of how the accounts performed.

*Annual benefit illustrations.* We provide annual benefit illustrations of projected account values and estimated retirement benefits for each active plan participant. (See attached example.)

Tools such as these are important in the ongoing education of plan participants.

## **Customer Examples**

Many of our customers have increased the amount of elective deferral contributions plan participants are making to the plan through their participant education efforts. Tri-State Turf & Irrigation, Inc. from Bettendorf, Iowa, which has 37 employees, experienced a 16% increase in the amount of elective deferrals contributed to the plan from 1997 to 1998. Deferrals are projected to increase another 13.5% in 1999. The employer attributes these increases to new enrollment materials, enrollment meetings, one-on-one discussions and a greater awareness of the benefits of a 401(k) plan by its employees. Often, we find that employees talking to each other about the plan's benefits generates enthusiasm about the plan and increases employee participation rates.

American Profol Inc. from Cedar Rapids, Iowa, which has 81 employees, has also seen a solid increase in the amount of deferrals contributed to the plan in the past two years. After conducting on-site enrollment meetings with videos and member communication materials, participants increased their deferral amounts. Deferrals increased 20% from 1997 to 1998 and are projected to increase another 12% in 1999.

### **Comments on the Pension Coverage and Portability Act of 1999 (S. 741)**

Principal commends Senator Grassley and Senator Graham for authoring the Pension Coverage and Portability Act of 1999 (S. 741). We believe this bill will increase the retirement security of millions of Americans and urge Congress to enact these provisions this year.

The passage of S. 741 will help the U.S. private pension system by:

- Encouraging more plans to be formed,
- Allowing U.S. workers to contribute more to their retirement plans,
- Simplifying existing overly complex rules,
- Making it easier to preserve plan assets for retirement, and
- Addressing women's pension equity issues.

We offer the following comments on the provisions in S. 741:

#### Retirement Plan Limits

Principal supports the proposed increases to the various dollar limits. Increases in the dollar limits will encourage employers to establish plans by allowing them to accumulate benefits in an amount comparable to the amounts accumulated by lower paid employees. Existing non-discrimination rules--such as the 401(k)/(m) nondiscrimination tests and the 415 maximum benefit limits--will ensure that plans do not discriminate in favor of the highly compensated employees.

We also support repealing the 25 percent of pay limit on annual additions under a defined contribution plan. This limit has little effect on the most highly paid employees while adversely affecting lower paid employees who choose to contribute generously to their 401(k) plans. Repealing the percent of pay limit would allow lower paid employees to increase their retirement savings.

#### Administrative Costs

We're pleased S. 741 includes provisions which will reduce administrative costs and burdens which have a disproportionate impact on small employers. Specifically, allowing matching contributions to be counted toward satisfying the top-heavy minimum required contribution and modifying the definition of key employee will help small employers comply with these rules. Elimination of the multiple use test for 401(k)/(m) plans will also simplify the non-discrimination test and reduce the administration burden on plan sponsors.

#### Portability

We are particularly pleased with the liberalization of the transfer and rollover rules and the modification of the same desk rule for 401(k) plans. Corporate acquisitions, mergers, dispositions and voluntary job changes are more and more frequent today. Each of these incidents can have a huge impact on an

employee's retirement savings. As employees change jobs, keeping track of their retirement accounts from several different plans is often difficult and time consuming. The best way to do this is to make it easier for employees to transfer these distributions to qualified plans or roll them over to an IRA. The provisions in S. 741 will preserve plan assets by making it easier to transfer benefits between 401(a), 403(b) and 457 plans. The bill also eliminates the "same desk rule" that prevents employees in 401(k) plans from receiving a distribution in certain corporate take-over situations.

### Tax Credit for Small Employers

We support the tax credit for small employers to offset the costs of setting up and administering a new plan. Many employers feel the costs associated with running a retirement plan prohibits them from establishing a plan. This is especially true for small employers whose decision to sponsor a plan is impacted by the cost of the plan. This tax credit will help offset the cost of establishing a retirement plan and will encourage more small employers to set up a plan.

### Highly Compensated Employee

We do not support the provision that would eliminate the employer's option to count only the top-paid 20 percent of employees who earn more than \$80,000 when determining the number of employees who are considered to be highly compensated employees. While most employers are not affected by this option, there is a small percentage of businesses that have a large proportion of their workforce earning more than \$80,000. These businesses include computer programmers, engineers, and sales representatives whose bonus income push them over the earnings limit. This option should be preserved.

### Defined Benefit Plans

We support the provisions creating a simplified defined benefit plan for small employers. The Secure Assets for Employees (SAFE) plan should increase the number of defined benefit plans established for small employers by reducing existing administrative costs and hassles that make defined benefit plans unattractive to many employers.

### **Summary**

Principal believes retirement savings education is a key issue. Employees (and their employers) must be made aware of the need to save more for retirement. Employer sponsored plans provide the most cost-efficient method of helping employees to prepare for retirement. Employers and the firms providing administrative and investment services for the plan must continue to help employees adequately prepare for retirement by providing the types of educational material we have discussed in this statement.

Principal also believes that more small employers will establish retirement plans if we can make those plans more attractive for the employer and his/her highly compensated employees. We should educate plan sponsors about the types of plans that are available, provide incentives-- such as tax credits for start-up costs and increased dollar limits--for employers to establish such plans, and then make plan administration less costly and less time consuming. The provisions in S. 741 will accomplish much of this. We strongly urge Congress to enact these provisions this year.